

VZCZCXRO7562
RR RUEHCN RUEHGH RUEHVC
DE RUEHIN #1923/01 2350058
ZNR UUUUU ZZH
R 230058Z AUG 07
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 6489
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 TAIPEI 001923

SIPDIS

SENSITIVE
SIPDIS

STATE PASS USTR, STATE FOR EAP/TC, USTR FOR STRATFORD,
ALTBACH, AND BAHAR, TREASURY FOR OASIA/TTYANG,
USDOC FOR 4431/ITA/MAC/AP/OPB/TAIWAN/PIERCE AND CARTER-NIXON

E.O. 12958: N/A
TAGS: [EFIN](#) [ECON](#) [ETRD](#) [PREL](#) [TW](#)
SUBJECT: AIT/W'S RUZICKA REVIEWS BILATERAL ECON
RELATIONSHIP IN TAIWAN

Summary

1. (SBU) Rick Ruzicka, Director of Trade and Commercial Programs at AIT/W, had a wide range of meetings with Taiwan counterparts and U.S. businesses during a visit to Taiwan from August 13 to 16. Ruzicka emphasized U.S. market-access interests in resolving MRLs, pharmaceutical, and other pending trade irritants, and outlined the current status of TIFA's investment and tax discussions for Taiwan officials. Taiwan officials pressed for an official launch of negotiations for a Bilateral Investment Agreement (BIA) negotiations as soon as possible and suggested the possibility of expanding the scope of the TIFA talks. End summary.

Eager for Bilateral Investment Agreement

2. (SBU) Ruzicka's interlocutors stressed Taiwan's strong desire to launch BIA negotiations as soon as possible. Office of the Trade Negotiator (OTN) Chief Representative John Deng's first question was whether the United States and Taiwan could formally launch investment agreement talks, indicating his view that any investment agreement would have to be finished before the current Taiwan Administration leaves office next spring. Ruzicka explained that the U.S. side is reviewing Taiwan's revised list of non-conforming measures (NCMs) very carefully and would get back to Taiwan on next steps when this process was completed. Deng suggested that perhaps the U.S. Congress should pass a law giving the president the authority to negotiate a trade agreement with TECRO on a narrow range of subjects, sort of a "fast-track lite" for Taiwan alone. More practically, he proposed that the TIFA agenda be expanded to include topics such as Sanitary and Phyto-sanitary (SPS) measures, technical barriers to trade (TBT), e-commerce, and competition policy (per Deputy U.S. Trade Representative Karan Bhatia's proposal according to Deng). Finally, on the U.S./E.U. issue of the Information Technology Agreement (ITA) product coverage, Deng said that Taiwan was still considering the U.S. invitation to join a WTO dispute resolution process.

3. (SBU) In a separate meeting devoted to the bilateral investment discussions, the Ministry of Economic Affairs (MOEA) Department of Investment Services Director General Berton Chiu also stressed Taiwan wants to move quickly to start negotiations on a bilateral investment agreement (BIA), which he said is now a top policy priority for all ministries. Although he admitted that the latest list of Taiwan's non-conforming measures (NCMs) is still lengthy, he

noted the list is shorter than the list that South Korea negotiated in its recently-concluded FTA with the United States, that the Taiwan side would like to keep several of the financial-sector NCMs as bargaining chips if negotiations begin, and asked for U.S. priorities among the NCMs. Chiu said that the Taiwan side has not yet begun consulting with relevant private-sector trade groups and associations regarding the possible BIA, nor has his office consulted with the Legislative Yuan (LY). He asked when Taiwan should start this private sector consultation process.

¶4. (SBU) Financial Supervisory Commission (FSC) Chairman Hu Sheng-cheng, as part of a wide-ranging discussion of Taiwan's economy, pressed the U.S. to move forward on FTA talks with Taiwan. He argued that the U.S. - Korea Free Trade Agreement would damage Taiwan's competitiveness. Contrary to the perception that Taiwan exported only information technology items which are largely tariff-free, he noted that textiles are responsible for a larger portion of Taiwan's trade surplus than semiconductors. (NOTE: Textiles and apparel together added USD 9 billion to Taiwan's trade surplus in 2006, while semiconductors accounted for only USD 4.2 billion, although the figure for semiconductors does not include semiconductors exported as components in other electronics. End note.) Ruzicka questioned the wisdom of allocating resources to sunset industries and noted that the TIFA process was achieving useful results in deepening and broadening the US-Taiwan economic relationship.

Tin Ear on Drug Price Cuts

¶5. (SBU) Mr. Ruzicka reinforced the concerns raised by AUSTRIA
TAIPEI 00001923 002 OF 002

Bhatia's August 6 letter to Minister of Health Hou Sheng-mou that during the July 11-12 TIFA talks in Washington, Hou failed to note Taiwan would announce the following week new drug price reductions which would go into effect on September 1. Ruzicka's interlocutors did not seem to understand U.S. concerns about the new price cuts. FSC Chairman Hu Sheng-cheng went so far as to dismiss U.S. complaints about Taiwan's drug pricing policies, and suggested that international pharmaceutical companies should set up research and development operations in Taiwan despite this issue, since the domestic market is so small and Taiwan offers such a good platform for production for the rest of the Asian market.

¶6. (SBU) Council on Economic Planning and Development (CEPD) Chairwoman Ho Mei-yueh, in commenting on the problem of the pharmaceutical "black hole" and lack of reimbursement at actual transaction prices, said that Taiwan authorities are considering ways to create more diverse income sources for Taiwan's medical care providers--such as pushing medical tourism to Taiwan--in order to wean hospitals away from using the pharmaceutical "black hole" as one of their primary profit sources. She mentioned as an example the promotion of Taiwan as a "liver island" specializing in the treatment of liver diseases. She also said that Taiwan needs higher user premiums to increase NHI funding, but doubts that the LY would allow premiums to rise in line with health costs due to the potential political backlash.

Beginning of End for Ractopamine Ban?

¶7. (SBU) Chief Trade Negotiator John Deng alerted Ruzicka that Taiwan was about to announce a "pre-notice" to establish a maximum residue level (MRL) for Ractopamine (PayLean). After a "short" public comment period, Taiwan would then establish a Ractopamine MRL based on the CODEX standard. National Security Committee (NSC) Senior Advisor Connie Yang stated that Deng was attempting to get an MRL in place before the LY comes back into session this fall to keep the LY from

interfering in the process. She noted that since the Taiwan authorities discovered that Japan has a domestic ban on Ractopamine but has also set an import MRL for it, the Executive Yuan (EY) decided to pursue this line of reasoning with the Bureau of Animal and Plant Health Inspection and Quarantine (BAPHIQ). (Note: Political pressure has continued to build, however, and it is far from clear when the proposed MRL will be implemented. End note.)

Bilateral Tax Discussions

18. (SBU) Connie Yang inquired about the possibility of reaching a bilateral tax agreement. Ruzicka reviewed the bilateral consultations that had occurred to date and noted three issues had been identified as potential concerns: exchange of information, limitation of benefits, and arbitration. Both sides were tentatively planning to confer in October to set out possible next steps.

WTO GPA Going Nowhere

19. (SBU) Turning to Taiwan's possible accession to the WTO plurilateral government procurement agreement (GPA), Yang reiterated Taiwan's position that any footnote reference with implications for Taiwan's sovereignty would be an unacceptable embarrassment to Taiwan, and said that the document should not include a footnote or cross-reference to Taiwan's status, or the authorities would never be able to convince the LY--and especially Taiwan Solidarity Party Legislator Lai Hsin-yuan--to accede to the agreement. She lamented that the Chinese government seems intent on embarrassing Taiwan again by forcing references to Taiwan's status into the document, and urged the U.S. to convince the P.R.C. that repeating the nomenclature is not necessary.

YOUNG